Fiji

Estimated growth in 2018 is unchanged from 2017, sustained by continued expansion in visitor arrivals, increased agricultural production, and continuing reconstruction of cyclone damage incurred in 2016. Inflation rose, and the current account deficit expanded. Growth will accelerate further in 2019 and 2020 as inflation and the current account deficit ease. Government policies supporting tourism growth need to ensure that development is appropriate and sustainable.

Economic performance

The economy grew by 3.0% in 2018 with contributions from agriculture, forestry, and construction, and particularly with continued growth in tourist arrivals (Figure 3.32.1). Despite two cyclones that caused flooding, sugarcane production increased to 1.7 million tons, up by 4.0% from 2017, though cane quality suffered and milling efficiency declined. Timber harvested from pine and mahogany plantations increased substantially for higher forestry output. Gold production declined, but food, beverages, tobacco, sawmilling, and the manufacture of wood products all experienced growth.

Private construction grew strongly in 2018 with increased new construction augmenting maintenance and repair. Visitor arrivals grew by 3.3%, bringing tourism earnings to the equivalent of 20% of GDP and boosting employment in the industry (Figure 3.32.2). Japan contributed the most to this increase with the resumption of direct flights. Visitor arrivals were higher as well from Europe, New Zealand, and other parts of Asia, notably the People's Republic of China.

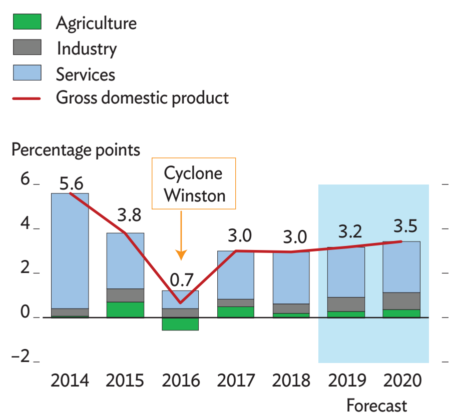
Despite frequent disasters, economic growth in Fiji has been uninterrupted since 2010. In 2018, the national statistics office increased its estimate of growth for 2016 but reduced the estimate for 2017.

Consumption continued to grow in 2018, with new vehicle sales up by 7.2%, second-hand vehicle sales up by 11.5%, and collections of value-added tax up by 6.1%. Commercial bank lending for consumption grew by 9.2%.

Inflation rose to 4.1% in 2018, the largest category increase being beverages, tobacco, and other intoxicants mainly because of higher duties on alcohol and tobacco but also because production of kava declined. Prices for food and nonalcoholic beverage rose by 3.4%. Prices fell for household goods and health care.

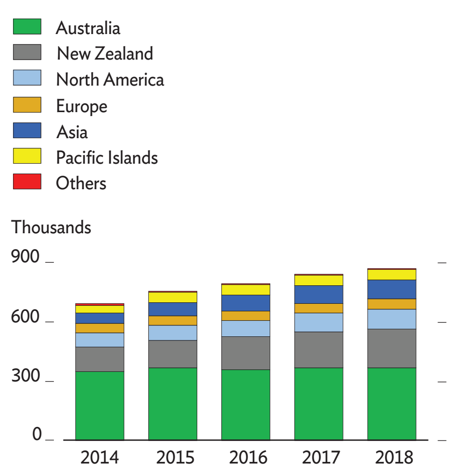
This chapter was written by Shiu Raj Singh of the Pacific Subregional Office, ADB, Suva.

3.32.1 GDP growth



Sources: Fiji Bureau of Statistics; ADB estimates.

3.32.2 Visitor arrivals



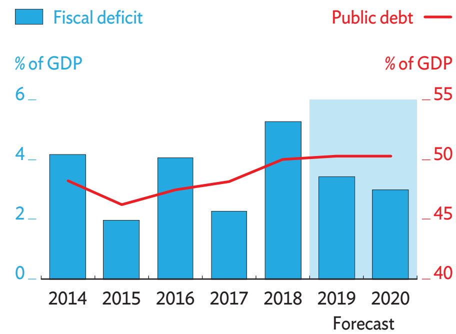
Source: Fiji Bureau of Statistics.

The fiscal deficit in fiscal year 2018 (FY2018, ended 31 July 2018) was equal to 5.3% of GDP, more than double the deficit of 2.3% in FY2017, as operating and investment expenditures both rose (Figure 3.32.3). Government debt increased from the equivalent of 46.4% of GDP in FY2017 to 50.0%.

Monetary policy remained accommodative, with the policy interest rate unchanged at 0.5%. Financial system liquidity declined in 2018 along with foreign exchange reserves as imports expanded, but liquidity remains adequate because the Reserve Bank of Fiji, the central bank, eased controls on external flows. Broad money increased by 3.1%. Average rates for time deposits of more than 36 months remained stable at 3.73%, just 1 basis point lower than 12 months earlier. The weighted average lending interest rate charged by commercial banks was also stable despite lower liquidity, increasing only marginally from 5.66% to 5.68%.

The current account deficit fell from the equivalent of 5.8% of GDP in 2017 to an estimated 5.2% as the surplus in services expanded on record visitor arrivals. Foreign currency reserves stood at $1.0 billion at the end of the year, sufficient to cover 4.5 months of retained imports of goods and nonfactor services.

3.32.3 Fiscal deficit and public debt



Note: Calendar year data for 2014; from 2015, years are fiscal years ending on 31 July of that year.

Source: Fiji Ministry of Economy.

Economic prospects

Growth is projected to improve to 3.2% in 2019. All sectors are expected to grow, with tourism in the lead, but construction will likely contribute substantially, considering high bank lending for real estate and the number of projects in progress. Tourism will continue to drive growth higher to 3.5% in 2020, with other contributors also strong. Growth forecasts assume that public resources will go into productive investments in infrastructure, but growth is unlikely to reach the trend that existed before Cyclone Winston in 2016 because the government plans to ensure that public debt does not exceed the government-set ceiling equal to 50.0% of GDP.

Planned investments in transportation and in water supply and sanitation in the greater Suva area are expected to contribute to growth in construction over the medium term. In addition, public investment in flood control structures in urban areas of Nadi should improve confidence in the tourism industry and encourage more investment.

Agriculture and forestry are important suppliers of exports with significant domestic value added. They are expected to continue growing, assuming no weather shocks, and contribute to economic growth. Fiji's largest sawmill has undertaken significant upgrades that promise to boost timber and woodchip production. Government policies supporting the sugar industry and mill improvements should encourage sugar output. Mining and quarrying are also expected to contribute to growth. A new iron sand mine slated to become operational

3.32.1 Selected economic indicators (%)

	2019	2020
GDP growth	3.2	3.5
Inflation	3.5	3.0
Current account balance (share of GDP)	–4.7	–4.2

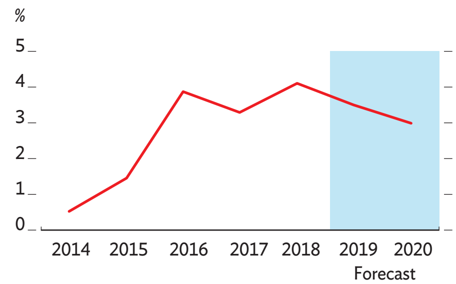
Source: ADB estimates.

this year has invested in dredgers and port facilities toward extracting 750,000 tons of magnetite concentrate annually to be sold to steel mills in the People's Republic of China. Tourism is on track for another record year and likely to benefit from reduced travel costs as fuel prices fall. Expanded private investment in tourism will contribute to continued growth in construction. Inward remittances are expected to continue growing in 2019 on increased seasonal employment in Australia and New Zealand.

Inflation is expected to ease to 3.5% in 2019 and 3.0% in 2020 as international prices remain low, but domestic tax measures and strengthening demand will prevent further deceleration (Figure 3.32.4).

Exports of goods are expected to grow as shipments of magnetite concentrate commence, and as the sugar and timber industries continue to recover. This development and higher earnings from tourism are expected to narrow the current account deficit by 0.5 percentage points in 2019 and again in 2020 (Figure 3.32.5).

3.32.4 Inflation



Sources: Fiji Bureau of Statistics; ADB estimates.

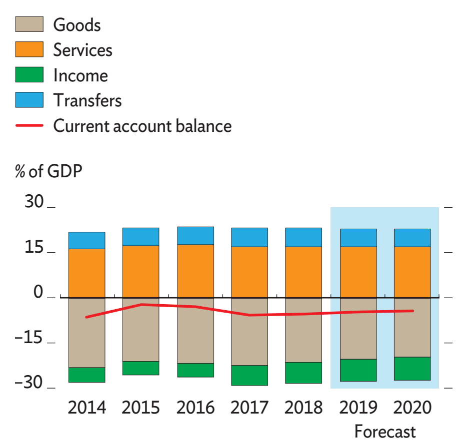
Policy challenge—ensuring a sustainable tourism industry

Like many other Pacific island nations, Fiji depends increasingly on tourism to drive growth and provide employment. Visitor arrivals in Fiji have increased from 2010 to 2018 at an average annual rate of 5.5%. With tourism earnings now providing a fifth of GDP, the business is central to employment, incomes, and poverty reduction. More tourists now insist on authentic cultural experiences and pristine nature, which is likely to continue benefiting Fiji in the future.

As Fiji's tourism industry depends crucially on the environment, any degradation threatens to undermine it. Tourism growth needs to be managed to minimize its environmental impacts. As the industry matures and moves into a more complex phase of development, greater coordination of policy and the regulatory environment will become necessary to ensure both maximal development impact and continuing sustainability. Fijian Tourism 2021, which provides a cohesive tourism strategy and plan, is a step in the right direction. However, the formulation and implementation of a broader sustainable development framework is still critically needed, as is the implementation of Fiji's Green Growth Framework and better compliance with existing environmental laws and policies.

In addition to public sector efforts to improve planning and regulations, Fiji needs an environment conducive to appropriate private investment and commitment to sustainable tourism initiatives. Finally, public infrastructure must do more than facilitate private investment. It must be able to withstand the impacts of climate change and heightened weather variability.

3.32.5 Current account balance



Source: Reserve Bank of Fiji.